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MSHDA-Legal

NEF INC

November 6, 2007

NATIONAL EQUITY FUND, INC.

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Mary Levine
Acting General Counsel/Director, Office of Legal Affairs
Michigan State Housing Development Authority
725 E. Michigan Ave.
Lansing, MI 48909

RE: Revised draft QAP

Dear Ms. Levine,

I am writing in response to the latest draft QAP for Michigan. First, let me commend the MSHDA staff for their work on this. There is a great deal in the draft that we support, and we think it supports a strong housing agenda that lays the groundwork for some high-impact projects in the years to come.

As a syndicator and a mission-based nonprofit affiliated with LISC, our priority is for the QAP encourage a vibrant, competitive LIHTC investment market that supports projects that most respond to the pressing local needs in different communities throughout the state. For both those goals, we generally have found that carrots work better than sticks.

That's particularly true in the current investment climate, where there are fewer investor dollars chasing deals and risk-based pricing is becoming much more prevalent. Indeed, some developers may find themselves without investors to buy their credits next year, as more and more traditional investors scale back their LIHTC goals. Given that, it's imperative for states to make sure their QAPs don't do anything to discourage investor interest. Otherwise, those more limited dollars will look elsewhere.

We think there are a couple of points in the current draft QAP that could be disincentives for investors. We also think they can be addressed in a way that preserves the objectives without endangering Michigan's marketability.



AN AFFILIATE OF
LOCAL INITIATIVES SUPPORT CORPORATION

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- *10% threshold for supportive/special needs housing*

NEF has long been a leader on supportive housing, with a \$1 billion portfolio of service-enriched deals nationwide. We strongly believe that encouraging supportive housing development—and more broadly, development of housing that reaches a broad range of income and tenant populations that do not fit within the typical 50-60 percent of AMI project—is an important goal for state agencies across the country. We are concerned, however, that requiring 10 percent of a project's units to be dedicated to these special needs populations could create unintended problems, particularly for smaller projects or those in more rural areas. We encourage MSHDA to define this category as broadly as possible, both to ensure small and rural projects can comply and to ease any investor concerns. We could be supportive if, for instance, these special needs units are allowed to respond to local need, i.e., very low-income seniors or families at 30 percent of AMI, in addition to homeless or disabled populations. As long as this threshold avoids a narrow definition and offers an opportunity for projects not able to lease to special needs tenants an opportunity to opt out—and as long as the state is providing adequate resources to make sure projects can support these special needs units—we think it can work. If any of those pieces are missing, we would suggest awarding bonus points rather than imposing a threshold. Investors may balk if the threshold looks too complicated or too restrictive.

- *Letters of interest*

We think the QAP's stipulation that applications include two letters of interest from investors can work only if it's clear that investors/syndicators should not actually be bidding on deals before they are allocated credits. In the current market environment—with IRRs to investors rising as supply and demand continues to shift—that does not work. No syndicator will want to commit to firm pricing so far out from the actual deal closing. There is too much risk that they will buy at a price they can't ultimately sell down the road. Letters of interest should be asked to offer a range of pricing, but not a firm bid.

- *Preservation*

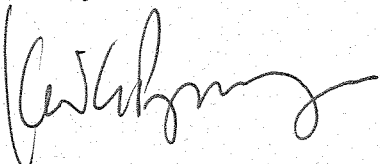
Given the amount of preservation work underway and under discussion throughout the state, we could support an even higher set-aside for preservation deals. This is an area of strong investor and developer interest.

- *MSHDA Financing*

We understand the QAP is awarding bonus points tied to projects using MSHDA financing. While we appreciate the thinking behind that, we would suggest that it discourages a competitive market for financing (which includes many of the same lenders interested in investing) and ultimately hurts developers' ability to put together the best possible package for their deals.

Thank you for your ongoing efforts to ensure the quality and availability of affordable housing in Michigan.

Sincerely,



Karen Przepyszny
Senior Vice President

